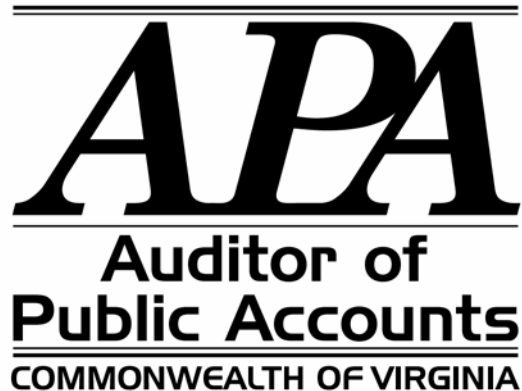


DEPARTMENT OF JUVENILE JUSTICE

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2005**



AUDIT SUMMARY

Our audit of the Department of Juvenile Justice for the year ended June 30, 2005 found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System; and
- matters involving internal control and its operations and noncompliance with applicable laws and regulations necessary to bring to management's attention.

- TABLE OF CONTENTS -

| | <u>Pages</u> |
|---|--------------|
| AUDIT SUMMARY | |
| AUDIT FINDINGS AND RECOMMENDATIONS | 1- 3 |
| AGENCY INFORMATION: | |
| Background Information | 4 |
| Financial Information | 4 |
| Juvenile Correctional Centers | 6- 8 |
| Financial Assistance to Localities | 8 |
| Court Service Units | 8 |
| AUDIT OBJECTIVES | 9 |
| AUDIT SCOPE AND METHODOLOGY | 10 |
| CONCLUSIONS | 10 |
| EXIT CONFERENCE AND REPORT DISTRIBUTION | 10 |
| AGENCY RESPONSE | 11 |
| AGENCY OFFICIALS | 12 |

AUDIT FINDINGS AND RECOMMENDATIONS

Contract Administration Best Practices

Contract administration is the management of all aspects of a contract to ensure the Contractor performs in accordance with the contractual commitments and fulfills his obligations under the terms and conditions of the contract. Contract administration begins after the award of the contract. The buyer should designate a contract administrator in writing. The administrator should be the end user of the contract or someone who has a vested interest in the good or service. The contract administrator designation should include important aspects of the contract and distinguish between the administrator's authority and that which must remain a function of the procurement division. The designation letter should outline specific delegated tasks, such as acceptance of goods or services, approval of invoices, scheduling and monitoring of project progress, and favorable or critical feedback to the contractor and buyer.

The procurement division should maintain a complete file in one place for each purchase transaction, containing all the information necessary to understand the why, who, what, when, where, and how of the transaction. Generally, records are open to the public in accordance with the "Virginia Freedom of Information Act" and should be available for review after award. The agency procurement manager or designee should maintain a list of current contracts, including the expiration date, renewal periods, and designated contract administrator. The agency should have a process to track and manage all contracts, including but not limited to contract renewal terms and amendments.

To maintain good vendor relationships and a competitive environment, the contract administrator must ensure prompt payment of invoices in accordance with the contract terms. The Code of Virginia requires agencies to pay for the completely delivered goods or services by the contract's required payment date. If the contract does not establish a payment date, then payment is due 30 days after receipt of a proper invoice or receipt of the goods or services, whichever is later. Before approving payment, the contract administrator should review the invoice and the contractor's performance and ensure that all is in compliance with the terms of the contract.

The contract administrator may recommend changes or modifications to the contract. However, the buyer must approve all requests for changes to the contract that affect price, quality, quantity, delivery or cancellation. All changes should be in writing and agreed to by both the buyer and the contractor. The contract administrator may initiate renewal of a contract in accordance with any renewal terms set out in the original contract. The agency may not renew a contract or pay additional consideration unless the original contract specifically provides for it. An extension may extend the term of an existing contract for services to allow completion of any work undertaken but not completed during the original term of the contract. The agency may not pay additional consideration to the contractor exceeding the contracted price through a contract extension. Also, in exceptional or extenuating circumstances, the agency may extend a contract by mutual consent for a limited period of time, not to exceed six months. The agency must complete all renewals or extensions in writing before the expiration of the current contract.

Finding: Improve Controls over Procurement Records and Contract Administration

Considering the contract administration best practices described above, the Department of Juvenile Justice (Department) does not have controls to properly administer its contracts. The Department does not have a centralized repository, such as in the Procurement Division, where they maintain contract documentation. Each contract administrator maintains their own records and contract documents, and therefore, no one centrally monitors the need for contract renewals. The contract administrator must monitor and initiate renewals or the need to put a contract out for bid, however, the final process should involve the procurement division.

The Department of General Services recommends maintaining a complete file in one place for each contract, to understand the why, who, what, when, where, and how of the transaction, in its "Agency Procurement and Surplus Property Manual." In addition, the Freedom of Information Act makes all procurement files and contracts public information and the records must be available at all times if requested by the public. Having each contract administrator maintaining the original copies of the contracts can hamper the availability of this information.

The Department does not always assign contract administrators in writing. The Department of General Services recommends delegating contract administration in writing by the buyer designating a specific individual or position, highlighting important aspects of the contract, and distinguishing between the administrator's authority and that authority which must remain a function of the purchasing office. As a result, the Department does not inform contract administrators of their responsibilities, and therefore, they do not always have a thorough understanding of the terms of the contract and cannot properly administer the contract. This could result in the Department not receiving the goods or services at the level for which they contracted.

The Department should implement centralized controls over contracts. The Procurement Division should have a central repository for all contract documents and support. The Procurement Division should maintain a list of all contracts, including the expiration date, renewal periods, and designated contract administrator. The Procurement Division should monitor these contracts, informing the contract administrators when contracts are expiring or subject to renewal to ensure that renewals and requests for bid are timely therefore preventing a gap in the delivery of goods or services. The Department should assign all contract administrators in writing, designating their role and responsibilities over the contract. Contract administrators should ensure that they have a thorough understanding of the terms and conditions of the contract to ensure the Department receives what is expected from the contract and to properly approve contract payments.

Finding: Improve Controls over Anthem Contract

The lack of proper controls over contract administration has led to serious problems with the Department's contract with Anthem Blue Cross and Blue Shield for claims administration services. This is one of the Department's largest standing contracts and has been ongoing for five years. Anthem processes and the Department pays \$1 to \$2 million in claims each year. This is a critical service for the Department. The Procurement Division did not assign a contract administrator in writing for the Anthem contract. In addition, the contract has had various administrators over the life of the contract due to changes in personnel. Without the written assignment, the contract administrator is not aware of their duties and responsibilities.

The current Anthem contract administrator does not have a good working knowledge of the terms and conditions of the contract. The administrator did not inform the fiscal technician processing Anthem payments as to the correct timing of payments. As a result, the Department paid 40 out of 46 required payments late over a two and a half year period. In accordance with the contract terms, Anthem charged the Department \$24,574 in interest for late payments. In addition, the Department made a duplicate payment of more than \$500,000 to Anthem in November 2004 due to lack of oversight of the payment process.

The Anthem contract expires on June 30, 2006, with no more renewal options. The contract administrator did not properly plan for the expiration of the contract. As of June 2006, the Department has not put out a Request for Proposal (RFP) for a new claims administrator. The contract administrator has initiated a six month contract extension of the current Anthem contract and is preparing the RFP for release. To improve the overall performance of the contract, the Department should consider what has worked and what has not worked during the Anthem contract and take steps to improve these areas in the new RFP/contract. We recommend that the Department consider a few specific issues for improvement.

- Prepayments – To provide funding for the claims administrator to pay claims, the Department makes a set prepayment each month into a fund. Prior to the Anthem contract, the Department did not have any historical data by which to set this pre-payment amount. As a result, the Department agreed to an initial pre-payment, which appears too high, and results in funds accumulating with Anthem that are not necessary to pay claims. The RFP/contract should set the initial pre-payment amount based on the last five years of claims data accumulated under the current Anthem contract. The contract should also stipulate that the Department and the contractor meet every six months to discuss contractor performance and review the pre-payment amount to determine whether it is at the optimum level. The Department should ensure that any changes are made in writing and signed by all parties.
- Payment terms – The RFP/contract should set payment due dates that allow the Department time to review and reconcile the invoices after receipt and to process the payment. If the contract provides for the claims administrator to charge interest for late payments, the contract should also allow for any money paid to Anthem but not used to pay claims earn interest while in Anthem's possession.

The Anthem contract administrator should become familiar with terms and conditions of the contract so that he can properly administer the contract through the six month contract extension. In coordination with the Accounting Manager, the Anthem contract administrator should bring all payments due to Anthem up to date and make payments timely during the contract extension. The contract administrator should not allow late payments that result in the Department paying Anthem interest. The contract administrator should assist in developing a request for proposal for a new claims administration contract that is equitable to both the Department and the contractor. The Procurement Division should properly assign a contract administrator to the new claims administration contract once signed, including a description of the contract administrator's role and responsibilities over the contract. Finally, considering the size and nature of this contract, the Department should provide for a back up administrator to minimize the effect of the loss of the primary contract administrator.

AGENCY INFORMATION

Background Information

The Department provides custody and care for juveniles in the correctional system. A juvenile enters the juvenile system when police, victims, or parents report a delinquent or status offense. A juvenile's first encounter with the system is an intake officer at a court service unit. The intake officer has discretionary power to divert cases from the judicial process. The officer could resolve the case through counseling, referral to other social agencies, or community service. If the decision is to file the charges with the court, the intake officer makes the initial decision about where the child will reside pending judicial proceedings. Many juveniles return to parents or guardians, but others remain in a secure detention facility or a shelter.

If the juvenile is found guilty at the adjudication hearing, there is a social investigation to assist the court in selecting the most appropriate dispositional sanctions and services for the juvenile and the family. The juvenile may receive conditional dispositions such as probation, participation in court service unit programs, referral to local services or facilities, referral to other agencies, private placement, or boot camp placement. The juvenile could also receive custodial commitment to state care. State care includes an initial evaluation at the Reception and Diagnostic Center and placement at one of the seven correctional facilities.

The Department has a central office in Richmond and three regional offices. The central office provides administrative support while the regional offices oversee court service units. The Department also assists in funding the following facilities and programs.

- Seven juvenile correctional centers (JCC) provide 24-hour secure custody and supervision, treatment services, recreational services, and a variety of special programs.
- A Reception and Diagnostic Center provides psychological, educational, social, and medical evaluations for committed youth.
- Thirty-five Juvenile and Domestic Relations Court Service Units provide intake, supervision, counseling, and a variety of other special services. The Commonwealth operates 32 units and localities operate three.
- Three halfway houses provide 24-hour residential and treatment services for youth returning to their communities.
- Twenty-four secure detention homes provide temporary care of juveniles who require secure custody pending court disposition or placement. The Department operates one home and the remaining homes are under local administration.

Financial Information

The Department's main funding source is General Fund appropriations. General Fund appropriations of \$193 million accounted for approximately 96 percent of the Department's revenue in fiscal year 2005. The Department also receives federal grants and some miscellaneous revenues. The following schedule provides information on the operating budget and expenses for fiscal year 2005.

Analysis of Budgeted and Actual Revenue by Funding Source:

| <u>Funding Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Revenue</u> |
|----------------------------|----------------------------|-------------------------|---------------------------|
| General Fund appropriation | \$187,759,903 | \$193,070,921 | \$193,070,921 |
| Special Revenue funds | 1,398,520 | 1,616,630 | 1,460,121 |
| Dedicated funds | 87,101 | 25,000 | 23,352 |
| Federal funds | <u>6,951,264</u> | <u>8,790,644</u> | <u>7,009,272</u> |
| Total Resources | <u>\$196,196,788</u> | <u>\$203,503,195</u> | <u>\$201,563,666</u> |

Source: Commonwealth Accounting and Reporting System

During the fiscal year, the overall budget increased \$7.3 million, reflecting increases in both the general and federal funds. General Fund appropriation increases reflect Central Appropriation transfers for increases in employer health insurance premiums and salary increases approved by the General Assembly. This increase also included funds to cover higher than anticipated health care costs and repairs to facilities damaged during Hurricane Gaston.

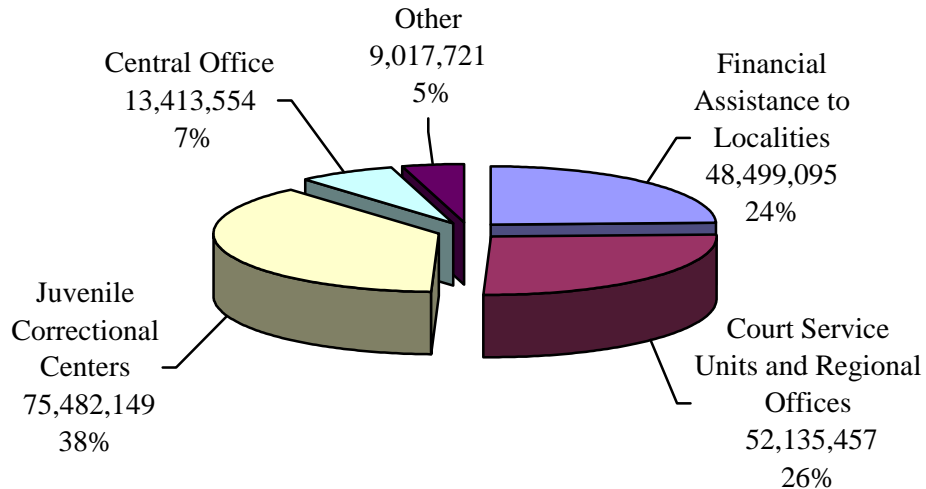
Juvenile Justice received additional federal funds for treatment, independent living, and food service programs for juvenile offenders; however, actual federal revenue was \$1.8 million less than expected because of the discontinuation of the Title IV-E transfers from the Department of Social Services resulting from a federal review and the end of the Sex Offender Treatment Program Grant. Below is an analysis of budgeted and actual expenses by program, which illustrates the distribution of the budget changes described above by program area. Actual expenses did not vary greatly from the budgeted amount in any one program.

Analysis of Budgeted and Actual Expenses by Program:

| <u>Program</u> | <u>Program Expenses</u> | | | <u>Funding Sources</u> | | | |
|--|----------------------------|-------------------------|----------------------------|-------------------------|-------------------------------------|---------------------------|-------------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual Expenses</u> | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Dedicated Fund</u> | <u>Federal Fund</u> |
| Administrative and Support Services (Program 319) | \$13,448,118 | \$ 13,671,040 | \$ 13,413,554 | \$ 13,413,554 | \$ - | \$ - | \$ - |
| Administrative and Support Services (Program 379) | 25,816,782 | 27,766,827 | 27,162,217 | 25,509,924 | 154,615 | 22,735 | 1,474,943 |
| Community Based Custody (Program 350) | 19,750,799 | 20,007,373 | 19,701,410 | 19,448,248 | - | - | 253,162 |
| Probation and Re-entry Services (Program 351) | 52,272,391 | 53,450,673 | 52,135,457 | 50,406,244 | 130,355 | - | 1,598,858 |
| Confinement and Custody Research, Planning, and Coordination (Program 355) | 11,949 | 2,604,409 | 2,198,233 | 190,183 | 214,434 | - | 1,793,616 |
| Financial Assistance for Confinement in Local Areas (Program 356) | 32,883,830 | 34,668,252 | 33,598,583 | 32,344,641 | - | - | 1,253,942 |
| Secure Confinement (Program 357) | 49,992,919 | 49,314,621 | 48,319,932 | 47,980,366 | 257,693 | - | 81,873 |
| Protective Services (Program 453) | <u>2,020,000</u> | <u>2,020,000</u> | <u>2,018,590</u> | <u>2,018,590</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Uses | <u>\$196,196,788</u> | <u>\$203,503,195</u> | <u>\$198,547,976</u> | <u>\$191,311,750</u> | <u>\$757,097</u> | <u>\$22,735</u> | <u>\$6,456,394</u> |

The following chart shows 2005 expenses by area. A substantial amount of the Department's expenses are in one of three areas; juvenile correctional centers, financial assistance to localities for the VJCCCA and detention, and court service units. We discuss these three major areas in more detail below.

2005 Expenses



Juvenile Correctional Centers (JCC's)

During fiscal year 2005, the Department operated seven JCC's and a reception and diagnostic center for juveniles committed to state care. These facilities provide programs to address the treatment, disciplinary, medical, educational, and recreational needs of the juveniles. Admissions peaked in 1995 at over 1,800, but have gradually decreased in recent years.

During fiscal year 2005 in response to the decrease in juveniles in correctional centers, the Department closed the Barrett correctional center. The closure involved transferring approximately 100 juveniles from Barrett and 54 juveniles from Hanover to other correctional centers. The Department did not layoff any employees by offering employees positions at other centers that did not require them to relocate. The Department still owns the Barrett facility and will use it for internal training and make it available for local law enforcement agencies to use for training. The transition was complete in May 2005.

The following chart shows overall admission and capacity information for the JCC's in 2005. The Department's current funding level supports beds for 1,143 juveniles. On the following page is similar information for 2005 by individual facility.

| | <u>2005</u> |
|--------------------------|-------------|
| Admissions | 922 |
| Capacity | 1,143 |
| Average daily population | 1,010 |
| Annual cost per ward | \$88,263 |

Source: Per Capita Report prepared by the Department

Note: The annual cost per ward includes costs incurred by the Department of Correctional Education for providing education for the juveniles. These education costs were approximately \$17,800 per juvenile in fiscal year 2005.

The following tables include capacity and cost information for each juvenile correction center. Personnel costs represent a significant portion of each center's operating expenses. The Department also operates a behavioral services unit, infirmary, and maintenance department, which benefit all the JCC's. The Department allocates these costs to the various centers based on each facility's average daily population.

| | <u>Barrett Correctional Center</u> | <u>Beaumont Correctional Center</u> | <u>Bon Air Correctional Center</u> | <u>Culpeper Correctional Center</u> |
|---|--|---|--|---|
| | SA, AM | AM, SO, SA, LS | AM, SO, SA, ISP | AM, SO, SA, ILP |
| Programs available* | SA, AM | LS | ISP | ILP |
| Average daily population | 97 | 255 | 220 | 61 |
| Capacity | 98 | 322 | 220 | 72 |
| Juvenile correctional center expenses: | | | | |
| Correctional center operating expenses | \$4,513,432 | \$15,758,080 | \$10,721,569 | \$6,170,153 |
| Behavioral services unit, infirmary, and maintenance | <u>614,078</u> | <u>1,617,946</u> | <u>4,134,491</u> | <u>424,924</u> |
| Total expenses | <u>\$5,127,510</u> | <u>\$17,376,026</u> | <u>\$14,856,060</u> | <u>\$6,595,077</u> |
| Per capita expenses: | | | | |
| Annual cost per juvenile** | \$70,669 | \$85,949 | \$85,336 | \$125,924 |
| Daily cost per juvenile | \$194 | \$236 | \$234 | \$345 |

Source: Commonwealth Accounting and Reporting System
Fiscal Year 2005 Per Capita Report prepared by the Department

*Legend: SA – Substance Abuse, AM – Anger Management, SO – Sex Offenders, ISP – Intensive Services Program, ILP – Independent Living Programs, BP – Behavioral Program, LS-Life Skills

** - Annual cost per juvenile includes \$17,808 per juvenile for educational costs provided by the Department of Correctional Education.

| | Hanover Correctional Center AM, SO, SA, JROTC | Natural Bridge Correctional Center AM, SA | Oak Ridge Correctional Center AM, SA, SO, BP, LS | Reception and Diagnostic Center Juvenile Overall Evaluation |
|--|---|--|--|--|
| Programs available* | | | | |
| Average daily population | 155 | 56 | 39 | 127 |
| Capacity | 154 | 71 | 40 | 166 |
| Juvenile correctional center expenses: | | | | |
| Correctional center operating expenses | \$8,717,732 | \$4,221,638 | \$3,127,547 | \$7,239,853 |
| Behavioral services unit, infirmary, and maintenance | <u>967,504</u> | <u>417,196</u> | <u>709,269</u> | <u>2,134,381</u> |
| Total expenses | <u>\$9,685,236</u> | <u>\$4,638,834</u> | <u>\$3,836,816</u> | <u>\$9,374,234</u> |
| Per capita expenses: | | | | |
| Annual cost per juvenile** | \$80,293 | \$100,644 | \$116,188 | \$91,621 |
| Daily cost per juvenile | \$220 | \$276 | \$319 | \$251 |

Source: Commonwealth Accounting and Reporting System
Fiscal Year 2005 Per Capita Report prepared by the Department

*Legend: SA – Substance Abuse, AM – Anger Management, SO – Sex Offenders, ISP – Intensive Services Program, ILP – Independent Living Programs, BP – Behavioral Program, LS-Life Skills

** - Annual cost per juvenile includes \$17,808 per juvenile for educational costs provided by the Department of Correctional Education.

Financial Assistance to Localities

The Department makes payments to localities for the construction, maintenance, and operation of local or regional detention centers, group homes, and numerous other related facilities. These facilities house juveniles who are awaiting sentencing or provide housing for juveniles who require a less secure environment. There are 24 local detention centers statewide that can house over 1,450 juveniles. The Department also funds various group homes and day centers, which also house delinquent juveniles. Localities request funds from the Department and the Board approves these requests. These payments come almost entirely from general fund appropriations in the form of block grants and Virginia Juvenile Community Crime Control Act (VJCCCA) funds.

Court Service Units

The Department has 35 Court Service Units (CSUs) located throughout the state. The CSUs coordinate services for juveniles in the court system. They provide a variety of services including intake, domestic relations, investigations, probation, and counseling. During fiscal year 2005, CSUs processed over 210,000 complaints involving juveniles.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

June 20, 2006

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited selected financial records and operations of the **Department of Juvenile Justice** for the year ended June 30, 2005. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Appropriations
- Contractual services expenditures
- Payroll expenditures
- Financial assistance and incentives payments to the localities

We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Department's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on June 28, 2006. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

Dbc:sks
sks: 34



COMMONWEALTH of VIRGINIA

Department of Juvenile Justice

Barry R. Green
Director

700 Centre, 4th Floor
7th and Franklin Streets
P.O. Box 1110
Richmond, Virginia 23218-1110
(804) 371-0700
Fax (804) 371-0773
Voice/TDD (804) 371-0772

July 5, 2006

The Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Sir:

We have received the audit report for the year ended June 30, 2005. We concur with the audit findings and recommendations and have already begun implementation. The action plan will be provided as required.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Stephen Pullen".

W. Stephen Pullen
Deputy Director of Administration and Finance

AGENCY OFFICIALS

DEPARTMENT OF JUVENILE JUSTICE

BOARD MEMBERS

As of June 30, 2005

Richard A. Sparks, Jr.
Chairman

Kim S. Downing
Vice President

Courtney A. Penn
Secretary

Aida L. Pacheco
Patricia Puritz

James S. Turpin.
Julia C. Winslett

ADMINISTRATIVE OFFICERS

Barry R. Green, Director

W. Stephen Pullen, Deputy Director of Administration and Finance